IDA

Individual Development Accounts (IDAs):

Strategy for Asset Accumulation

November, 1998

Office of Thrift Supervision

IDA

Individual Development Accounts

Contents

IDA
Individual Development Accounts

Foreword

For years, members of both the public and private sectors have sought ways to bridge the economic gap between wealthy and low-income persons. They have hoped to create a mechanism to allow all Americans an opportunity to achieve self-sufficiency through participation in traditional capital markets and by means of acquiring valuable human and social assets. Individual Development Accounts (IDAs), a concept developed over the past several years, can be such a mechanism.

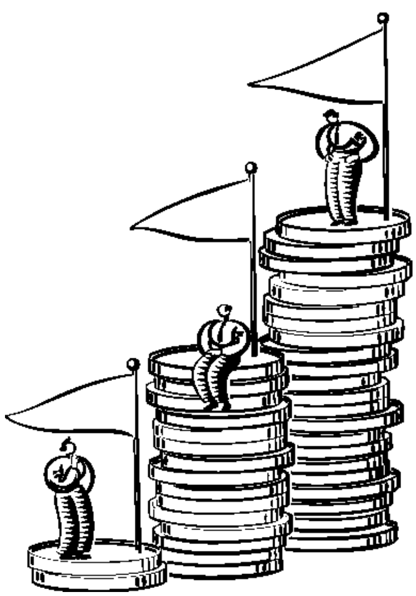
IDAs, resembling Individual Retirement Accounts, are savings accounts at financial institutions established by individuals, with a specific, restricted purpose for the funds, such as purchasing a home, continuing education or starting a business. With training and economic counseling provided by nonprofit organizations, as well as matching funds provided by public or private sources, low income persons can now begin to transition themselves from poverty to prosperity.

This paper is intended to provide the reader with an introduction to the many aspects of Individual Development Accounts. It is designed for financial institutions and nonprofit organizations that may be interested in learning more about Individual Development Accounts, establishing partnerships to support a local Individual Development Account program, or identifying national and local resources to seek further information on this important means of asset development.

The Office of Thrift Supervision gratefully acknowledges the efforts of Melissa L. Bradley, a Community Affairs Specialist who has served in the OTS Fellowship Program since August 1997. Among the many contributions that Ms. Bradley has made to the OTS during her fellowship is the preparation of this paper, which draws on her own experiences as a community development practitioner, and on the knowledge of her extensive network of professional colleagues.

IDA

Individual Development Accounts



Background

A new direction in anti-poverty strategy has emerged in the United States. This new direction is centered around asset building and stakeholding. In contrast to many of the precepts of welfare programs, which emphasize income and consumption, asset-based strategies promote savings and investment.

Asset-based strategy is premised on two major principles. The first is that barriers to asset building, such as the asset-limits that characterize means-tested welfare policy, should be eliminated. The second is that asset accumulation should be promoted.[1]

Historically, asset-based policy has appeared before in the United States, dating back to the Homestead Act of 1862. Signed by President Lincoln, this Act encouraged the settlement of the Great Plains region of the United States. The Act allowed applicants, at least 21 years of age, to receive 160 acres of land from the government contingent upon application and paying a filing fee; title would be received if improvements were made upon the land. More recently, asset accumulation for the non-poor has been promoted through federal and state tax systems, especially through home mortgage interest deductions and deferrals for retirement pension accounts.

Asset-based strategies are thus not new in American society. Historically, however, such accumulation of assets and wealth has been limited to the non-poor. The ability of the wealthy to accumulate assets has been due in part to education, ability to save, access to capital markets, and participation in a variety of banking/financial products.

With IDAs, the poor can now also begin to save, receive economic literacy training and accumulate assets so they can see an increase in personal wealth. In addition, IDAs allow the poor to utilize a variety of banking products otherwise unknown to them, as well as access capital markets that may provide a continual flow of asset accumulation. No longer will their participation in the economy be dictated by minimum balances, since IDAs allow participants to determine reasonable levels of savings and investment.

IDAs are truly a "step up" for low-income citizens to begin to participate in the American economy by encouraging savings and providing returns and incentives for both the poor and non-poor to participate. In addition, they offer a real means by which to begin to eradicate poverty in America.

IDA

Individual Development Accounts

What are Individual Development Accounts?

Individual Development Accounts (IDAs) are the centerpiece of a new asset-based strategy that creates hope, jobs, and enterprises; builds families, communities, and economies; and develops assets for individuals seeking to escape from poverty.[2] They are designed to increase savings and investment for welfare recipients and the working poor. They attempt to provide people with a means to escape poverty and achieve financial security through asset accumulation, and not just through income.

Introduced by Professor Michael Sherraden, in his book Assets and the Poor, IDAs are savings accounts established by individuals, with a specific, restricted purpose for the funds, such as purchasing a home, continuing education or starting a business. In this respect, they are very much like Individual Retirement Accounts, which are established for the express purpose of providing retirement funds for the accountholder.[3]

IDAs are earnings-bearing accounts in which the deposited funds and the earnings on the funds are usually state tax-benefited (tax-exempt or tax-deferred). Proposals have been introduced in Congress that could potentially provide a deferral of federal income taxes for individual contributions to, and interest earnings on, IDAs; this concept is similar to the treatment of IRAs and 401 (k) plans.

An IDA is a vehicle by which the accountholder can more quickly accumulate funds to acquire and retain a long-term asset, with the assistance and involvement of community-based organizations, financial institutions, state or local governments, and the private sector.

IDA programs have evolved at the grass roots level across the country, and while the specific attributes of each program vary, they all have certain similarities:

- The purpose of the IDA is identified at the onset of the program.
- Participants make regular deposits to savings accounts over a specified period of time.

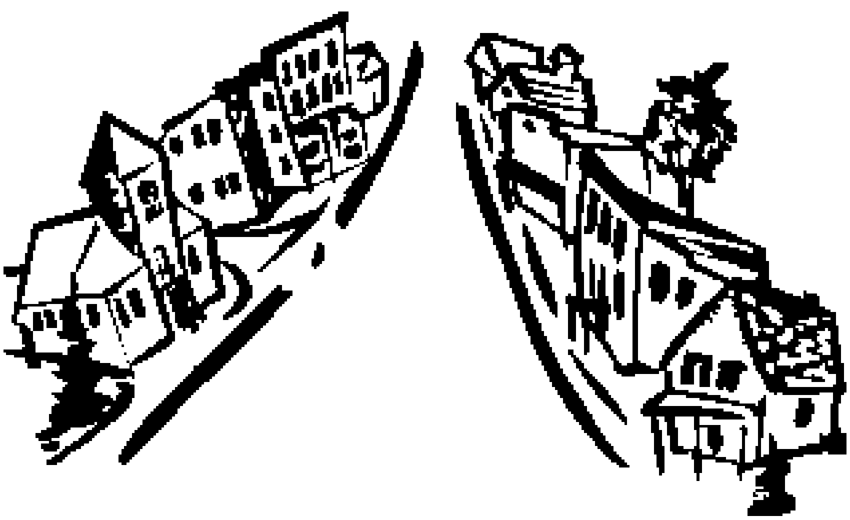
- Participants are required to attend training or counseling tailored to the purpose of their IDA (such as personal or business budgeting, microenterprise, homeownership, or home maintenance).

- The deposit accounts are maintained at a financial institution.

- The participants deposits are matched, at varying rates, by third parties (such as businesses, philanthropic organizations, state or local governments, or financial institutions).

- A community-based organization administers the IDA program, including monitoring the participants deposits and their attendance at training.[4]

IDA programs are a collaborative effort that requires the active participation and commitment of many parties to be successful. But those that do succeed do so not only because the participants have been financially supported in their efforts, but also because participants come out of the program better able to manage their personal or business finances, to understand how to plan and acquire assets, and to have a lasting sense of self-worth.



The Benefits of IDAs

IDAs produce a wide variety of benefits to individuals, families, communities and community institutions. Professor Sherraden, in Assets and the Poor, highlights nine positive effects of asset building:

1. Improves household stability;
2. Psychologically connects people with a viable, hopeful future;
3. Stimulates development of other assets, including human capital;
4. Enables people to focus and specialize;
5. Provides a foundation for risk-taking;
6. Increases personal efficacy;
7. Increases social influence;
8. Increases political participation; and
9. Enhances the welfare of children and future generations.[5]

The distribution of assets in this country is less even than the distribution of income. While the top 10% of Americans control 40% of the national income, the top 1% control 99% of the assets. Fully one-third of American households have no or negative investable assets.[6] This is the situation at a time when the price of entry to the American economy measured in terms of the cost of adequate education and housing has increased.

Individual Development Accounts are a step toward rectifying this situation:

- They seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness, and inclusiveness in the economy;

- They seek to invest resources in order to generate more resources in the future; that is, they are investment strategies;

- They respect individuals seeking their own futures as the driving force of development; they recognize and build on the capacities, initiatives, and dreams of poor people themselves; and they place services in a secondary and supportive role;

- They recognize that human, family, community, and economic development occur together in an interacting, uneven, and cumulative process; and

- They are not a public strategy, but a single integrated private-public system focused on outcomes.[7]

IDA
Individual Development Accounts

Who Makes the Rules?

It is important to recognize that IDAs are not currently mandated or regulated by federal law. However, many local governments have allocated or granted permission for funding and tax adjustments to be used to encourage and facilitate the development of local IDA programs.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), also known as Welfare Reform, authorizes states to:

- Create community-based IDA programs with Temporary Assistance to Needy Families (TANF) block grant funds;
- Disregard all money saved by the poor in IDAs, in determining eligibility for all means-tested government assistance;
- Permit only earned income to be saved in IDAs;
- Designate that only nonprofit community-based organizations may serve as custodians of IDA accounts; and
- Permit IDAs to be used for education, home ownership, and business capitalization.[8]

The National Governors Association released an Issue Brief in January 1997 which points out:

> *By including IDAs in their state plans, regardless of whether they choose to fund them with TANF, states can remove current penalties for savings and investment and create an infrastructure for future federal investment. States may also consider broader IDA initiatives that include the asset-poor majority and encourage savings through refundable tax credits to savers or contributors to the accounts. With the Federal Home Loan Banks, churches, foundations, employers, and the federal government all beginning to fund IDAs, states that act now to set up frameworks for IDAs will be first in line to tap into future funding opportunities.*

By including IDAs in their plans, whether they fund them or not, states can effectively remove barriers to asset building, such as the asset limits that characterize means-tested welfare policy. The welfare reform legislation passed by Congress, and almost all welfare reform proposals at the state level, call for increases in general asset limits to promote savings among welfare recipients and lower income households. At least 40 states have already proposed or implemented IDA demonstration projects that increase welfare asset limits in one way or another.[9]

In Pennsylvania, Governor Tom Ridge announced in 1997 his plans to create a new state-funded IDA program to give some of the state s poorest families an incentive to save, with matching funds provided by the state. Pennsylvania s 1998 budget allocates $1.25 million to a Family Savings Account (FSA) Initiative to create 2,500 FSAs for low-income Pennsylvania families in fiscal year 1998. The Initiative calls for the state to match $.50 on every dollar saved by each family, up to $300 in matching funds annually. The FSAs will be managed by community organizations and held at financial institutions.[10]

In Indiana, the legislature passed a bill that allocates money from the state general fund over the next four years to match participant savings in IDAs at a 3:1 ratio. The state will fund 800 IDAs annually, contributing up to $900 per account. To be eligible, an individual must have an income below 150% of the poverty level. The bill also provides up to an additional $500,000 in tax credits annually to private contributors to IDA programs. This tax credit component may fund up to 1,000 additional IDAs.[11]

For more information on state plans and local IDA activity, consult the Corporation for Enterprise Development (CFED) or the Center on Law and Social Policy (CLASP). See Resource Directory for contact information.

IDA

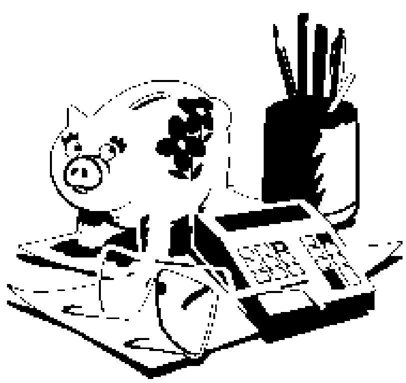
Individual Development Accounts

Design Issues Related to Creating IDA Programs

Importance of Clearly Defined Goals and Objectives

In creating an IDA program, it is important to clearly define the program s goals and objectives in order to:

1. Help focus and maximize resources, make difficult choices, set targets during the design phase, and determine program outcomes;
2. Help potential participants, partners and providers of matching funds to clearly understand their roles in the program;
3. Provide a sense of the time frame necessary to achieve the desired results; and
4. Provide a basis upon which to evaluate the effectiveness of the IDA program.[12]



For example, the following objectives were established by the Center for Community Self-Help IDA program:

- To demonstrate the strength and power of asset accumulation, even at relatively small amounts;
- To foster asset-based financial planning strategies among populations that encounter constant savings disincentives;
- To provide a means of increasing owner equity, in both housing stock and business holdings; and
- To test the ability of institutions like Self-Help to offer innovative financial products to under-served populations.[13]

Selecting IDA Program Participants

Participants for IDA programs are usually recruited by the nonprofit intermediary administering the program. This is often the best approach, since the intermediary typically has an established relationship with eligible participants. More importantly, the nonprofit intermediaries often possess the internal infrastructure and capacity to work with the participants and adequately address their personal and financial issues.

While there is no ideal number of participants per program, it is important that the intermediary select a manageable number of accountholders. Since success of the program is contingent on both education and matching dollars, it is important that the intermediary have the ability both to train participants and to raise money to ensure the matching funds are available to participants at the conclusion of their training.

Approaches to Selecting Participants

	Advantages	Disadvantages
Universality	◆ The economic and social appeal of assets to all Americans provides a broader political backing.	◆ It is more difficult to evaluate the impact of IDAs if IDA participants are a diverse group.
Targeting	◆ Allows practitioner to allocate its scarce resources to a population that would most benefit from IDAs. ◆ Allows practitioners to select a population whose needs and capacities they know best. ◆ Makes impact of IDAs easier to determine.	◆ Limits the number of participants in an IDA program.[14]

Uses, Thresholds & Ceilings, Accumulation Periods, Match Rates, and Sources of Matching Funds

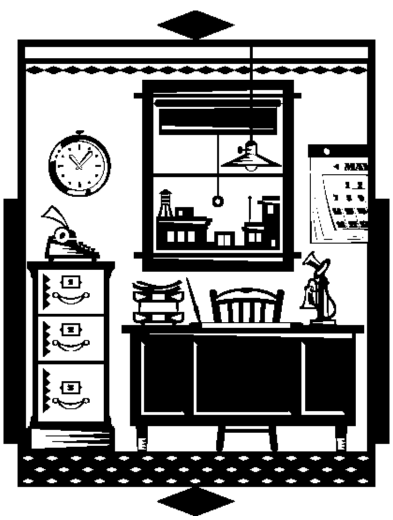
Specification of uses, thresholds and ceilings, accumulation periods, and match rates and sources is the structural core of all IDA programs. Decisions on these issues affect virtually all aspects of an IDA program, including how many clients can participate; how much is available in matching funds; how much the participants will save and for how long; how successful clients will be in building assets; and how the results of the program will be evaluated. It is essential that practitioners tailor IDA programs to meet the specific needs of the target populations and the expectations of funders, while at the same time keeping in mind their own internal capacity and expertise.

Identifying IDA Uses

In keeping with the premise that IDAs are created as an asset-building strategy, and are designed to achieve high-return investments, the primary uses of IDAs have been to fund the direct costs of education and training, self-employment, and homeownership.

Education and training: Enhances career opportunities by increasing capacities and credentials. Local community colleges, adult education centers and vocational education facilities are possible sources for this training.

Self-employment (start-up): Provides seed capital for entrepreneurs to start their own businesses. Business training, often through a microenterprise program, is an essential component.



Homeownership: Provides the downpayment on a first home. As the value of the home increases, so do the individual s assets. Homeownership counseling, to ensure individuals are prepared to meet monthly mortgage payments, and basic home repair training, may also be included to maintain or increase the value of the home.

Some IDA programs will allow participants to withdraw their own funds in case of an emergency. While "emergencies" are not part of an asset-building strategy, low-income individuals often need access to their savings, which may be their only source of protection in cases of emergency.[15]

Thresholds & Ceilings

IDA programs should establish account parameters that will ensure the availability of the funds required to undertake the identified use. It is important that, at the completion of the program, participants are able to achieve the expected outcome. For example, if a participant needs $1,500 for the downpayment on a first home, the account (savings + matching funds) should be structured to provide that amount. Alternatively, for those participants who identify a specific business asset they wish to purchase, the amount of savings + matching funds should equal the price of the asset.

In addition to determining funding needs, practitioners must also consider parameters for the minimum and maximum number of participants in a program. This determination should balance the need for a viable number of participants to justify the overhead involved with the internal capacity of the practitioner to manage the program.

Accumulation Periods

The accumulation period is the period of time from when an IDA account is opened by the participant until the participant has accumulated sufficient funds to invest in the identified asset. The accumulation period is affected by the cost of the asset, the participant s savings rate, and the rate at which savings are matched.

For example, an account that is established for a higher cost asset, in which the participant is able to save relatively less each month, and which has a lower match rate, will have a longer accumulation period than an account for a lower cost asset, where, in addition, both the savings and match rates are higher.

A shorter accumulation period is not necessarily more or less desirable than a longer accumulation period; each approach has its advantages and disadvantages:

Accumulation Periods

	Advantages	Disadvantages
Shorter Accumulation Period	◆ Participants have the opportunity to achieve outcomes sooner. ◆ Low income status of many IDA participants may signal their urgent need for assets. ◆ Limits oversight costs for programs no need to monitor savings deposits and withdrawals over a period of years. ◆ Shorter period to determine impact of IDA program.	◆ Participants do not receive full benefit of consistently depositing money and seeing savings accumulate. ◆ Participants may not view contributions as matches, but rather as grants because they do not see their money accumulate slowly and receive little or no earnings on the funds. ◆ There may be too little time to ensure that participants are properly trained in financial management to achieve desired results. ◆ Less time for use-specific skills training (such as microenterprise).
Longer Accumulation Period	◆ Participants slowly build up savings, matches and earnings and learn the value of savings. ◆ Longer period lends itself to more thorough evaluation. ◆ Provides time to properly plan the use of savings and matches to learn crucial financial management skills.	◆ Requires increased oversight over a number of years. ◆ Participants must wait to achieve desired outcomes despite the pressing need to increase income. ◆ May increase the participation dropout rate.[16]

IDA

Individual Development Accounts

Match Rates

A necessary component of any IDA program is the provision of matching funds. This is the vehicle by which participants are tangibly supported in their efforts to build assets. As is the case with accumulation periods, there is no one preferable match rate. In practice, match rates have ranged from as low as a $ .50 for each dollar saved (.5:1 ratio), to as high as a $9 match for each dollar saved (9:1 ratio).

Obviously, the higher the match rate, the fewer IDA accounts that can be supported by a given amount of matching funds. Other considerations in establishing match rates include:

Considerations in Establishing Match Rates

	Advantages	Disadvantages
Lower Match Rates	◆ Participants feel a greater sense of accomplishment. ◆ Lower match rates ensure stronger commitment to savings.	◆ It takes much longer to accumulate funds. ◆ Participants may never reach their savings goal.
Higher Match Rates	◆ Participants are able to acquire assets sooner. ◆ Participants have a better chance of meeting savings goals.	◆ Higher match rates may encourage participants to borrow money from friends and family. ◆ Higher match rates require a larger annual IDA program budget.
Sliding Match Rates *Program offers different rates to participants based on the income of the participant.*	◆ Links matches with the ability to save. ◆ Provides greater matching funds for groups that have greater needs.	◆ Makes managing accounts more difficult.
Differing Match Rates *Program provides differing rates to participants as an incentive to encourage one use over another and to account for varied costs of assets.*	◆ Links matches more closely to the needs of participants and intentions of the IDA program.	◆ Makes managing accounts more difficult.[17]

Sources of Matching Funds

Traditionally, matching funds have been provided by foundations, state governments, corporations and individuals. Some existing IDA programs secure matching funds from interest income from the non-poor or from charitable contributions from financial institutions. Generally, these matching funds are tax-exempt for the contributor if the funds are given to a nonprofit intermediary.

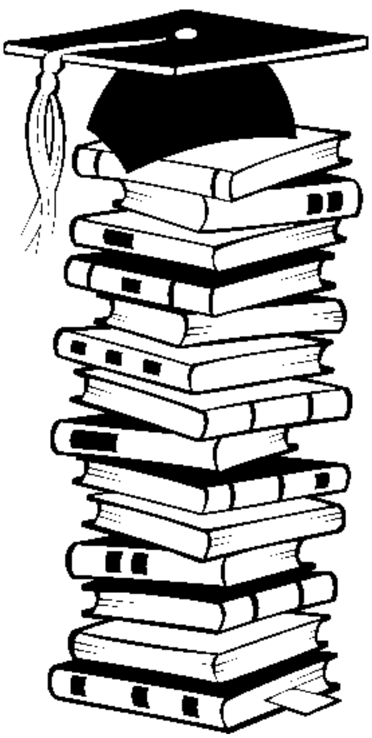
The following table illustrates some of the approaches proposed or utilized by various states to encourage IDAs:

Approaches for Encouraging IDAs

Approach	Description	Example
Refundable individual tax credit	Individuals receive tax credit, which may be refunded if it exceeds tax liability, for savings deposited in an IDA.	Iowa provides a refundable tax credit of 20 percent for deposits by people with income below 150 percent of poverty; the percentage slides to 10 percent for those with incomes between 150 and 200 percent of poverty.
Tax exemption of deposits in IDA	Deposits to IDAs do not count as income for state tax purposes.	Virginia has proposed such an exemption.
Tax exemption for withdrawals from IDA	IDA amounts withdrawn, including capital appreciation, interest and dividends, are not taxed upon withdrawal for approved purposes.	Virginia has proposed such an exemption.
Tax credit to contributors to the IDA of a low income person	Individuals and corporations contributing to IDAs of low income people receive a tax credit, generally 50 percent, for contributions.	Colorado and Virginia have proposed and Pennsylvania will soon implement a pilot IDA program as an extension of the existing Neighborhood Assistance Program, which already provides such credit for contributions to neighborhood development efforts.
Required employer matches	Employer who receives wage subsidies for employing welfare recipient is required to contribute $1.00 per hour worked after 30 days of employment to an account dedicated to education or training.	Arizona, Delaware, Massachusetts, Maryland, Mississippi, Oregon and Virginia are using versions of full employment (wage subsidy) plan.
Child support pass through	Portion of child support collected from absent parent is passed through if placed in savings account for children.	Missouri has enacted such a program.[18]

IDA
Individual Development Accounts

Orientation, Economic Literacy, Training and Counseling



Successful IDA programs have as a mandatory and key component the provision of education to the participants. IDA participants often lack the economic literacy required to be successful beyond the program. Most IDA programs include an orientation for potential clients even before they begin saving. The purpose of the orientation is to introduce participants to the IDA program and how it works; discuss personal goals; begin developing individualized savings plans and training requirements; and review responsibilities and expectations of all parties.

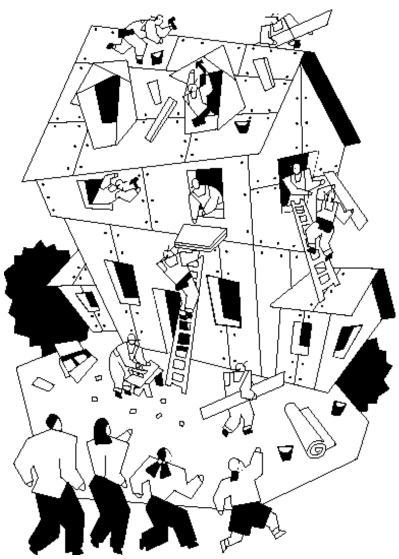
Throughout the accumulation period, most IDA programs require that participants remain involved in an economic literacy program that provides the foundation for strong, positive money management. In addition to receiving economic literacy training, IDA participants are often required to take part in specific training and skills development related to their individual asset acquisition (e.g., homeownership counseling, business planning). Much like other economic development programs for the poor, it is expected that IDA programs will prove more successful when participants are required to consider asset-building options while accumulating funds and to complete the relevant training before receiving access to the funds.

The Women s Self-Employment Project (WSEP) has developed one of the most comprehensive curricula, Money and Assets. This training is conducted with participants in 12 bi-monthly seminars over a 2-year period. Topics presented include:

- Introduction to Financial Management and Saving
- Asset Building and IDAs
- Education and Asset Building
- Homeownership and Asset Building
- Starting a Business and Asset Building
- Investment Options
- Retirement[19]

IDA
Individual Development Accounts

Partnership Opportunities for Financial Institutions



Individual Development Account programs offer a natural means by which financial institutions can partner with local community groups. Because IDAs are an extension of a financial institution s normal business activities, and because the majority of an IDA s program administration and implementation is the responsibility of the community group, banks and thrifts may want to consider participating by serving as hosts/sponsors for IDA accounts.

To date, there are several examples of financial institution involvement with IDA programs. Such involvement has ranged from technical assistance to free account services to higher interest rates on accounts. According to the Center for Enterprise Development (CFED), there are six ways that financial institutions can get involved:

1. Offer higher interest rates for IDA savings accounts;
2. Contribute matching funds to the community group;
3. Contribute operating funds to the community group;
4. Assist in the delivery of technical assistance to IDA participants by providing economic literacy training and/or curriculum development;
5. Serve on an IDA program advisory board;
6. Provide account balance and transaction data to the community group on a monthly basis, or provide free or reduced fee electronic funds transfer services to both the community group and IDA participants; and
7. Provide a loan for asset acquisition to the IDA participant at the end of the savings period.

What to Look for in an IDA Program Partner

As with any partnership undertaking, in selecting a community group with which to co-sponsor an IDA program, a financial institution should be concerned with the long-term viability and stability of the community group. There are two key areas that financial institutions should consider:

History: Financial institutions should examine the group s track record and history in terms of the client population, previous training and lending programs, prior relationships with financial institutions, and composition of its management structure.

Capacity: Financial institutions should ensure that the groups have the internal capacity and expertise to administer an IDA program.

It is expected that an IDA Program Partner would:

- direct participants to a selected financial institution;
- send participants monthly account statements of savings, earnings, and matching funds;
- monitor deposits and withdrawals of participants;
- track account activity through a management information system;
- develop a withdrawal process;
- allocate matching funds based on participant savings; and
- provide counseling and training to participants.[20]

Management Information Systems

A management information system (MIS) tailored to track participant characteristics, account information, and outcomes is critical for managing and evaluating an IDA program. Financial institutions can contribute to creating the needed systems by providing account balances and transaction information to both the community organization and the IDA participant on a monthly basis. Financial institutions can also help to develop electronic transfer systems for matching funds and for transfer of funds to asset vendors upon completion of the program.

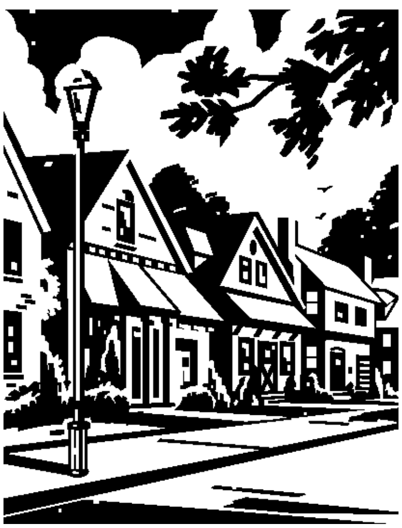
IDA

Individual Development Accounts

CRA Considerations

Individual Development Accounts, for the educational, housing or business development benefit of low- or moderate-income individuals, serve community development purposes under the Community Reinvestment Act (CRA). Thus, partnerships with local IDA program providers may assist depository institutions in receiving favorable consideration under the CRA.

Examples of how depository institutions can receive favorable CRA consideration by participating with local IDA programs include:



- Providing retail banking services, such as free checking and ATM services, to low- or moderate-income IDA account holders will receive favorable consideration under the retail services part of the services test.
- If a depository institution provides deposit subsidies or matching dollars to an IDA program, this activity will be treated as a charitable contribution for the provision of affordable housing, community services or small business development. Therefore, the matching funds, as well as the provision of operating funds to an intermediary group, would be counted as a qualified investment.
- If a depository institution makes a loan to an IDA account holder for housing or employment in a new small business, the loan would be reported as a home mortgage or small business loan. These loans would receive positive consideration under the lending test as such loans.
- If depository institution management or staff participate in the development or implementation of economic literacy training for low- to moderate-income IDA account holders, work on the curriculum or as instructors would be includable as a community development service under the service test. Such consideration would also be given if management or staff served on an advisory board.

IDA
Individual Development Accounts

National Initiatives

While many existing IDA programs are locally based and managed, there are at least three national initiatives designed to provide support, resources and technical assistance to local programs. Such national campaigns are designed to evaluate the impact of localized IDA programs as well as to further advance the concept of IDAs throughout the United States.

Federal Home Loan Bank System

Securing affordable financing for lower income home purchasers is an ongoing challenge. To assist banks and thrifts in their efforts to develop affordable housing, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established the Affordable Housing Program (AHP) in August 1989 at the Federal Housing Finance Board (FHFB).

The purpose of the AHP is to subsidize the interest rates for advances (loans) and to provide direct subsidies to Federal Home Loan Bank System member institutions engaged in lending for long-term, very low-, and low- and moderate-income, owner-occupied and affordable rental housing.

The AHP is administered by the 12 Federal Home Loan Banks (FHLBs) and is designed to assist member institutions in financing affordable housing development. Each FHLB contributes 10 percent of the previous year s earnings to the program. Since inception, AHP has allocated over $783 million for rental and home ownership projects, including $120 million in 1997 and an estimated $130 million in 1998.

On January 1, 1998, the Federal Housing Finance Board (FHFB) amended the Affordable Housing Program (AHP) regulations.

The new regulations:

- authorize the Federal Home Loan Banks (FHLB) to approve their own projects;
- clarify important definitions; and

- improve and clarify monitoring and other responsibilities of the banks, member institutions, and sponsors involved in the Affordable Housing Program.

These changes in the regulation allow greater flexibility to the FHLBs to determine and meet the needs of their local communities. Each FHLB may set aside annually up to the greater of $1.5 million or 15 percent of its required AHP contribution to assist low- and moderate-income households to become homebuyers. Under the set-aside program, each FHLB establishes its own allocation criteria for the AHP funds. The member must provide the AHP set-aside funds as a grant, in an amount up to a maximum of $10,000 per household, as established by the FHLB.[21]

While many FHLBs have decided to use set-aside funds to support affordable housing efforts, the New York and Seattle FHLBs have established set-aside programs that incorporate dedicated savings accounts, such as IDAs.

In New York, the First Home Club provides a 3:1 match to first time homebuyers who demonstrate 10 months of savings in a dedicated savings account. The maximum subsidy per household is $5,000 and funds can be used for downpayment and closing costs.

In Seattle, the Home$tart Savings Program provides a 3:1 match of the amount in a dedicated savings or escrow account, up to a maximum of $5,000. Such an account, savings or escrow, must have accumulated at least six months of savings.

Member banks and thrifts may consider accessing the AHP to support IDA programs as part of their first-time homebuyer campaigns. For more information, contact the FHFB in Washington, D.C. or the local Community Investment Officer at a regional FHLB. See Resource Directory for contact information.

Corporation for Enterprise Development

The Corporation for Enterprise Development (CFED) has been a leader in the implementation and evaluation of Individual Development Accounts.

Founded in 1979, the Corporation for Enterprise Development is a private, non-profit 501(c)(3) economic development organization with offices in Washington, DC, Chapel Hill, NC, and San Francisco, CA. CFED provides a range of services including policy design, analysis, advocacy, demonstration and project management, consulting, technical assistance, training, research, information, and publication services -- to public, private, nonprofit, and community organizations throughout the United States and internationally.

IDA

Individual Development Accounts

Since 1995, CFED has been involved in studying and evaluating the potential impact of IDAs on low income persons in the United States. To this end, CFED conducted a return on investment study of the probable benefits and costs of a proposed national IDA demonstration. According to this analysis, a national investment of $291 million in public and private funds into IDAs is estimated to produce net returns of $1.6 billion within a decade.

According to the study, every 100,000 IDAs are estimated to produce:

- 7,050 businesses;
- 68,800 job-years of employment;
- $730 million in additional earnings;
- 6,000 new and 6,000 rehabilitated homes;
- $287 million in savings in community financial institutions;
- $188 million in increased assets of low-income families;
- 11,667 families off welfare; and
- 32,000 additional high school and college degrees.[22]

In an effort to test the results of this study, CFED has launched a new, privately funded, $11 million national IDA demonstration entitled The Downpayments on the American Dream Policy Demonstration. This demonstration will closely track the performance (and the effects of IDAs on participating individuals and families) of thirteen IDA programs nationwide over the next six years.

Many of the financial institutions currently involved in IDA programs are partnering with the CFED pilot sites. For more information on CFED and selected IDA sites throughout the United States, consult the Internet and go to www.idanetwork.org.

Neighborhood Reinvestment Corporation

A congressionally chartered, public nonprofit corporation, Neighborhood Reinvestment Corporation (NRC) was established in 1978 to revitalize declining lower-income communities and provide affordable housing for current residents. The Corporation achieves these goals primarily through the development and support of local resident-led partnerships that include business leaders and local government officials. These organizations form the NeighborWorks® network.[23]

While the asset-building activities of local NeighborWorks® organizations are seldom referred to as IDAs, NeighborWorks® organizations have routinely been involved in a range of IDA-type activities, including: pre- and post-purchase housing and credit counseling; savings plans; and counseling related to budgeting and family finances.

NRC and ten affiliated NeighborWorks® organizations have launched the NeighborWorks® IDA Project in ten diverse communities across the country.

The ten sites are:

1. Inglewood NHS
   Inglewood, California
2. Sacramento MHA
   Sacramento, California
3. NHS of New York City
   New York, New York
4. Salisbury NHS
   Salisbury, Maryland
5. NHS of New Haven
   New Haven, Connecticut
6. NHS of New Orleans
   New Orleans, Louisiana
7. Kankakee NHS
   Kankakee, Illinois
8. Community Service Programs of West Alabama
   Tuscaloosa, Alabama
9. NHS of Albuquerque
   Albuquerque, New Mexico
10. NHS of Cincinnati
    Cincinnati, Ohio

IDA

Individual Development Accounts

Some of the expected program parameters for the NRC IDA program are:

- Each account holder must save a minimum of $20 per month, $240 per year.
- The maximum level of savings eligible for a match will be $500 per year.
- The initial match rate will be 2:1 for each accountholder with NRC providing 50% of the match, up to $7,500, and the local NeighborWorks® organization required to obtain the additional 50%. In addition, NRC will provide $10,000 for program operations per site.
- Each site will assist at least 15 families; participants in the IDA program may be at 80 percent of area median income or 200 percent of the poverty level (both limits as adjusted for family size).

The NeighborWorks® IDA Project is a relatively new one and many of the program specifics are still being negotiated within each community. For example, the Inglewood NHS, located in southern California, has agreed to open 20 IDA accounts. Fifteen of the accounts will be matched 2:1 with matching funds being received from Hawthorne Savings, FSB in El Segundo, CA. Five accounts will be matched 1:1 with matching funds from Broadway Federal Bank, FSB, in Los Angeles, CA. The maximum match amount for each account will be $500. Program participants will be required to participate in economic literacy training as well as monthly meetings. Participants will be authorized to use their funds to buy a home, start a business or pursue higher education or training.

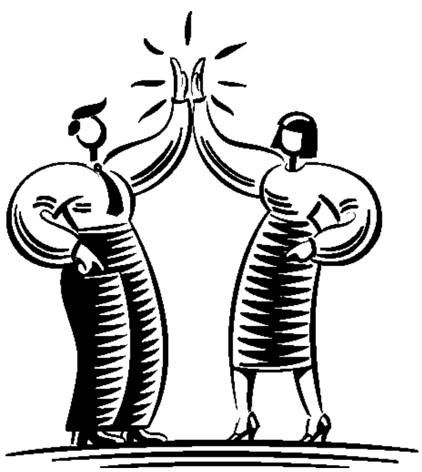
Due to the historical partnership between banks and thrifts and the NeighborWorks® network, it is only natural that financial institutions may find local NeighborWorks® organizations appropriate partners in supporting IDA programs throughout the United States.

IDA

Individual Development Accounts

Conclusion

IDAs are a good strategy to begin to bridge the gap between the haves and have nots. Through the promotion of asset accumulation, coupled with education and incentives for participation from the non-poor, IDAs provide leverage for low income people to become engaged in the economic mainstream of America. The success of this strategy requires education, financial support and collaboration. Thus, there are numerous ways for financial institutions to become engaged in the implementation and management of IDA programs to help low income people increase personal assets and self-worth.



Financial institutions can provide operating or matching funds, as is the case with Bay View Bank and California Federal Bank in partnership with the East Bay Local Asian Development Corporation in the San Francisco Bay area of California. Banks and thrifts can also provide higher interest savings accounts and/or reduced fees as is the case with Washington Mutual Bank in partnership with Human Solutions, a nonprofit intermediary in Portland, Oregon.

These partnerships not only assist the nonprofit intermediaries in providing training and matching funds to the clients; such collaborative efforts also assist financial institutions as well. Institutions may receive positive CRA consideration for their participation, as well as gain access to a new customer base enabling cross-marketing of accounts and loan products to the accountholders.

IDAs are a logical community development activity for banks and thrifts to consider as they seek to not only provide increased financial wealth to individuals, but also offer a sense of stability to the communities they serve through home ownership and business development.

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